

**REPORT OF THE AUDIT OF THE
DAVIESS COUNTY
SHERIFF'S SETTLEMENT - 2002 TAXES**

September 4, 2003



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CRIT LUALLEN
Auditor of Public Accounts

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Louis R. Haire, Daviess County Judge/Executive
Honorable Keith Cain, Daviess County Sheriff
Members of the Daviess County Fiscal Court

The enclosed report prepared by Ross & Company, PLLC, Certified Public Accountants, presents the Daviess County Sheriff's Settlement - 2002 Taxes.

We engaged Ross & Company, PLLC, to perform the financial audit of this statement. We worked closely with the firm during our report review process; Ross & Company, PLLC, evaluated the Daviess County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script, reading "Crit Luallen".

Crit Luallen
Auditor of Public Accounts

Enclosure



**REPORT OF THE AUDIT OF THE
DAVIESS COUNTY
SHERIFF'S SETTLEMENT - 2002 TAXES**

September 4, 2003

ROSS & COMPANY, PLLC
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
DAVISS COUNTY
SHERIFF'S SETTLEMENT - 2002 TAXES

September 4, 2003

Ross & Company, PLLC, has completed the audit of the Sheriff's Settlement - 2002 Taxes for Daviess County Sheriff as of September 4, 2003. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$29,112,440 for the districts for 2002 taxes, retaining commissions of \$845,320 to operate the Sheriff's office. The Sheriff distributed taxes of \$28,237,914 to the districts for 2002 Taxes.

Report Comment:

- The Sheriff Should Have Required Depository Institutions To Pledge Or Provide Additional Collateral Of \$212,230 To Protect Deposits

Deposits:

The Sheriff's deposits were not insured and collateralized by bank securities or bonds.

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Independent Auditor's Report

We have audited the Daviess County Sheriff's Settlement - 2002 Taxes as of September 4, 2003. This tax settlement is the responsibility of the Daviess County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Daviess County Sheriff's taxes charged, credited, and paid as of September 4, 2003, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated October 31, 2003, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Louis Haire, Daviess County Judge/Executive
Honorable Keith Cain, Daviess County Sheriff
Members of the Daviess County Fiscal Court

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Sheriff Should Have Required Depository Institutions To Pledge Or Provide Additional Collateral Of \$212,230 To Protect Deposits

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Ross & Company", written in dark ink.

Ross & Company, PLLC

Audit fieldwork completed -
October 31, 2003

DAVIESS COUNTY
KEITH CAIN, COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2002 TAXES

September 4, 2003

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 4,082,755	\$ 2,748,785	\$ 12,147,908	\$ 4,306,030
Tangible Personal Property	641,830	389,530	1,711,550	1,548,031
Intangible Personal Property				663,595
Increases Through Exonerations	3,245	2,078	16,982	2,606
Omitted Taxes	122	81	483	129
Franchise Corporation Taxes	360,226	214,771	763,488	
Distilled Spirits Taxes	23,941	13,860	82,572	
Unmined Coal - 2002 Taxes	741	492	2,934	781
Oil and Gas Property Taxes	4,593	3,050	18,192	4,844
Limestone, Sand, and Mineral Reserves	194	129	766	204
Bank Franchise Taxes	322,898			
Penalties	24,240	15,663	64,976	29,257
Adjusted to Sheriff's Receipt	(194)	(591)	(427)	(377)
Gross Chargeable to Sheriff	<u>\$ 5,464,591</u>	<u>\$ 3,387,848</u>	<u>\$ 14,809,424</u>	<u>\$ 6,555,100</u>
<u>Credits</u>				
Exonerations	\$ 19,406	\$ 12,400	\$ 58,403	\$ 26,818
Discounts	82,802	52,125	232,869	108,692
Delinquents:				
Real Estate	54,465	36,309	167,397	57,443
Tangible Personal Property	19,988	11,571	51,007	33,678
Intangible Personal Property				6,675
Unmined Coal - 2002 Taxes	11	8	45	12
Uncollected Franchise Corporation Taxes	29,501	17,120	25,778	
Total Credits	<u>\$ 206,173</u>	<u>\$ 129,533</u>	<u>\$ 535,499</u>	<u>\$ 233,318</u>
Taxes Collected	\$ 5,258,418	\$ 3,258,315	\$ 14,273,925	\$ 6,321,782
Less: Commissions *	223,770	138,478	214,109	268,963
Taxes Due	\$ 5,034,648	\$ 3,119,837	\$ 14,059,816	\$ 6,052,819
Taxes Paid	5,029,186	3,116,300	14,045,580	6,046,848
Refunds (Current and Prior Year)	5,462	3,537	14,236	5,971
Due Districts or (Refunds Due Sheriff) as of Completion of Fieldwork	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

* See page 4.

The accompanying notes are an integral part of this financial statement.

DAVIESS COUNTY
KEITH CAIN, COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2002 TAXES
September 4, 2003
(Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	14,828,515
1.5% on	\$	14,273,925

DAVIESS COUNTY
NOTES TO FINANCIAL STATEMENTS

September 4, 2003

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of January 10, 2003, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$212,230 of public funds uninsured and unsecured.

DAVISS COUNTY
 NOTES TO FINANCIAL STATEMENT
 September 4, 2003
 (Continued)

Note 2. Deposits (Continued)

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official as of January 10, 2003.

	<u>Bank Balance</u>
FDIC insured	\$ 100,000
Collateralized with securities held by pledging depository institution in the county official's name	21,630,894
Uncollateralized and uninsured	<u>212,230</u>
Total	<u>\$ 21,943,124</u>

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2002. Property taxes were billed to finance governmental services for the year ended June 30, 2003. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 25, 2002 through May 6, 2003.

B. Unmined Coal Taxes

The tangible property tax assessments were levied as of January 1, 2002. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 20, 2002 through May 6, 2003.

Note 4. Interest Income

The Daviess County Sheriff earned \$28,491 as interest income on 2002 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder will be used to operate the Sheriff's office.

Note 5. Sheriff's 10% Add-On Fee

The Daviess County Sheriff collected \$95,816 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office.

DAVIESS COUNTY
NOTES TO FINANCIAL STATEMENT
September 4, 2003
(Continued)

Note 6. Advertising Costs And Fees

The Daviess County Sheriff collected \$11,220 of advertising costs and \$10,775 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). Since the Sheriff pays for the advertising cost, he transferred the advertising cost to the fee account and the advertising fees will be used to operate the Sheriff's Office.

Note 7. Unrefundable Duplicate Payments And Unexplained Receipts Should Be Escrowed

The Sheriff should deposit any unrefundable duplicate payments and unexplained receipts in an interest-bearing account. According to KRS 393.110, the Sheriff should properly report annually to the Treasury Department any unclaimed moneys. After seven years, if the funds have not been claimed, the funds should be submitted to the Kentucky State Treasurer. For the 2002 taxes, the Sheriff had \$336 in unrefundable duplicate payments and unexplained receipts. Therefore, the Sheriff should send a written report to the Treasury Department.

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COMMENT AND RECOMMENDATION

DAVIESS COUNTY
KEITH CAIN, COUNTY SHERIFF
COMMENT AND RECOMMENDATION

September 4, 2003

The Sheriff Should Have Required Depository Institutions To Pledge Or Provide Additional Collateral Of \$212,230 To Protect Deposits

On January 10, 2003, \$212,230 of the Sheriff's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the Sheriff require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

Sheriff's Response:

None.

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Daviess County Sheriff's Settlement - 2002 Taxes as of September 4, 2003, and have issued our report thereon dated October 31, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Daviess County Sheriff's Settlement - 2002 Taxes as of September 4, 2003 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards and which is described in the accompanying comment and recommendation.

- The Sheriff Should Have Required Depository Institutions To Pledge Or Provide Additional Collateral Of \$212,230 To Protect Deposits

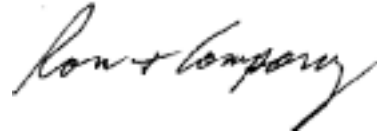
Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Daviess County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in cursive script that reads "Ross & Company".

Ross & Company, PLLC

Audit fieldwork completed -
October 31, 2003

